

EXHIBIT 2
DATE 1-19-09
HB 28

Personal Income Tax Exemption for Uniformed Services Retirement Pay

- ✓ *Doing the right thing
for our veterans.*
- ✓ *Doing things right
for Montana.*

Doing the Right Thing for our Veterans:

- *Servicemembers have spent years
enduring hardships to protect our
freedom*
- *Honor and support them*

*"The People declare that Montana
servicemen, servicewomen, and veterans
may be given special considerations
determined by the legislature"*

Article II, Section 35
Montana Constitution

Doing Things Right for Montana:

- Exemption will attract new residents*
- ✓ *Positive Financial Impact*
 - ✓ *Enhanced Technical skills*

EXEMPTIONS A HISTORY

- ✓ *This is by no means a NEW idea.*
- ✓ *Many States have changed their tax
codes in order to make residency in
their States attractive to military
retirees.*

BACKGROUND

Eighteen (18) States exempt 100% of military
retirement pay from State Income taxation.

- | | | |
|--------------------|----------------|------------------|
| 1. Alabama | 2. Hawaii | 3. Illinois |
| 4. Kansas | 5. Kentucky | 6. Louisiana |
| 7. Massachusetts | 8. Michigan | 9. Mississippi |
| 10. Missouri* | 11. New Jersey | 12. New York |
| 13. North Carolina | 14. Ohio | 15. Oregon |
| 16. Pennsylvania | 17. Wisconsin | 18. New Mexico * |
- * Pending

BACKGROUND

There are nine (9) states with no Personal Income Tax (PIT):

| | | |
|--------|------------|----------------|
| Alaska | Florida | New Hampshire* |
| Texas | Wyoming | South Dakota |
| Nevada | Washington | Tennessee* |

* Only tax interest income derived from out of state institutions.

BACKGROUND

Seventeen (17) States provide partial exemption.

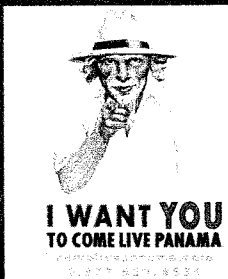
Montana is one of these. However, it only applies to a few retirees because:

- Up to \$1,600 in interest income
 - Must be 65 or older
- Up to \$3,600 income
 - No exemption if gross income exceeds \$30,000

NOTE: Railroad Tier I & II is the ONLY retirement income that is 100% exempt in Montana

Others Recognize the Benefits Military Retirees Offer Economic Development

This full page ad appeared in several editions of the Military Officers of America monthly magazine "The Military Officer" distributed to 358,000 members each month.



If Panama recognizes the benefits military retirees have to offer, why does Montana ignore them?

The Pacific Northwest...

GREAT PLACE TO RETIRE

Stunning views, abundant cultural life, no state income tax and Panorama... just a few of the great reasons to retire in Washington State.

Panorama is an accredited, continuing care retirement community offering a broad range of housing selections and the most affordable retirement options in the country. Conveniently located near Ft Lewis, Madigan Medical Center, and McChord AFB, Panorama is a not-for-profit corporation, and is dedicated to a superior quality of life for those over age 55.

"It's just a beautiful place to live!"

Panorama

www.panoramacity.org or call: (800) 999-9807

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The Military Officer, June 2003

EXEMPTIONS

So.....

What do they know that we don't?

"States that provide relatively high tax exclusions for all taxpayers in an age group presumably are acting to attract retired people to the state, or to keep retired residents from moving to another state with a tax regimen more favorable to them."

- National Conference of Legislators
18 September, 2003

In Montana,

"...older workers will play a large role in the state's labor force in the future. Increasing employment among this group will be a key component of any efforts to combat declining labor force participation"

-Montana Department of Labor & Industry, 2008

WHY EXEMPT MILITARY PENSIONS?

- *State income tax structure is a driving factor in a military retiree's selection of primary residence after leaving active duty.*
 - States where tax exemption or substantial tax relief exists attract large retiree populations out of proportion to total State population.

SO WHO IS A MILITARY RETIREE?

NOT YOUR AVERAGE RETIREE!

First and foremost, he/she is **NOT** retired.

An average profile of a military retiree would be:

Retiree Profile

AGE

- ✓ Younger - 39 to 44 years old

INCOME

- ✓ Average annual pension is \$30,044*

* New retiree average pension based on 28% Officer, 72% Enlisted - 2008 military pay chart data

Retiree Profile (cont.)

EMPLOYMENT

- ✓ Not only needs to work - wants to work
- ✓ Possesses significant service-acquired skills
 - Management, engineering, technology, education, and medical fields
- ✓ Spouses also bring employable skills
 - Many are professionals

EMPLOYMENT

(cont.)

- ✓ *Entrepreneurially inclined – will create small businesses and more employment.*
- ✓ *Well positioned to meet new industry employment needs*
- ✓ *Volunteerism - part of military culture*

- DoD actuarial statistics

BUT MOST IMPORTANTLY.....

- These retirees *do not* have a negative effect on:
 - Community Schools
 - Services
 - Medicaid or welfare
- An influx of skilled engineers, technicians, physicians, health service workers and educational instructors.
- Stability for economy in times of economic downturn

DEMOGRAPHICS

- There are 1,859,677 paid military retirees across the nation.
 - Officers = 519,396 (28%)
 - Enlisted = 1,340,281 (72%)
- \$43,573,120,000 was the total of DOD transfer payments to the 50 states and overseas (average \$23,430/retiree)

*2007 Actuarial statistics from DOD on the Military Retirement System

WHERE DO THEY RETIRE?

62% of military retirees live in these fourteen (14) states

| | Residents | Exemption Status | 3 yr net gain/loss |
|------------------|------------------|-----------------------|--------------------|
| Alabama | 52,444 | Total exemption | + 2,834 |
| Arizona | 42,582 | Significant exemption | + 2,560 |
| California | 172,311 | No exemption | - 16,301 |
| Florida | 186,274 | Total exemption | + 3,984 |
| Georgia | 88,256 | Significant exemption | + 6,044 |
| Illinois | 24,678 | Total exemption | + 1,481 |
| New York | 36,198 | Total exemption | + 618 |
| Nevada | 27,161 | Total exemption | + 1,986 |
| North Carolina | 81,035 | Significant exemption | + 6,766 |
| Pennsylvania | 47,129 | Total exemption | + 1,679 |
| South Carolina | 52,466 | Significant exemption | + 2,457 |
| Texas | 189,469 | Total exemption | + 6,237 |
| Virginia | 46,962 | Significant exemption | + 11,478 |
| Washington | 69,255 | Total exemption | + 1,878 |
| Sub Total | 1,214,340 | | |
| MONTANA | 8,326 | No exemption | - 706 |

MONTANA DATA

- Montana now has 8,326 Retiree Residents
- No exemption for personal income tax (PIT)
- 706 new retirees in last 3 years (Avg gain - 235/yr)
- 238,574 military retired in US during this 3 year period.
- MT share is .36%

*2007 Actuarial statistics from DOD on the Military Retirement System

2007 PIT PAID BY MILITARY RETIREES IN MONTANA

- Data obtained from the 2007 DOD Statistical Report on the Military Retirement System.
 - 7,785 military retirees subject to Montana PIT
 - Associated Federal Transfer funds of \$ 158,688,000/yr
 - Estimated Montana PIT revenues of \$6,347,520*

* assumed tax rate of .040 on existing retiree base at pension average of \$ 30,044*/year

ECONOMIC STABILITY FOR MONTANA

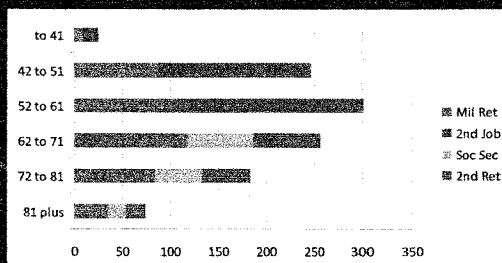
- Income is not impacted by job layoffs, recessions or depressions (recession proof)
- Cost of Living Adjustments (COLA) on their military retirement income, social security and concurrent receipt disability payments
- Many also have VA pensions
- Under age 65 are covered by the military TRICARE health system
- Over age 65 are covered by Medicare and the military TRICARE for Life health system

IMPACT ON MONTANA ECONOMY

Healthcare Dollars (TRICARE and Direct Care systems)

- \$89,670,000 dollars were spent on retiree healthcare in Montana in 2007
- That amounts to \$10,769 per retiree
- Federal dollars bring in medical services that may not be supported by smaller populations

MONTANA MILITARY RETIREE INCOME BY AGE (\$millions)



PROJECTED PIT REVENUES

(based on 1000 new retirees)

- Calculation Basis:
 - 1,000 military retirees (post 2008)
 - 28% Officer at median rank O-4/24 years service
 - 72% Enlisted at median grade E-7/22 years service
 - Estimated transfer funds (retirement)
- \$30,044,000/1000 retirees/year
- 280 Officers = \$11,956,000*
- 720 Enlisted = \$18,084,960*

*2008 Military Pay Tables

PROJECTED PIT REVENUES

(based on 1000 new retirees)

- Average pension for a military retiree couple is \$30,044.*
- Civilian employment is est. at \$46,748 /year/retired family
 - Income tax gains of an estimated \$1,869,920 in State income taxes for each 1,000 military retirees through their civilian employment.
- Add major tax gains realized for the significant new business generated in the economic community through the multiplier impact of retirees pensions.

Attracting and retaining 1,000 new military retirees in five years is a realistic goal under this program!

*Based on 2008 pay tables, 28% Officer - 72% Enlisted

NEW REVENUE THAT WILL HELP OFFSET INITIAL LOSS OF RETIREMENT INCOME

- Property Taxes (\$2,708)*
- Business/Corp Taxes
- Payroll Taxes (new businesses)
- Income taxes (2nd job)
- Income Taxes (spouse employment)
- VA disability payments
- Education (GI Bill)
- Social Security
- Medical Care (TRICARE)
- Real Estate Purchases/construction
- Purchased goods & services
- 2nd Career Social Security

*Ave property taxes paid per household.
Source: Bureau of census, 2005

SUMMARY

In addition to tax revenues gains, a myriad of other benefits will be gained.

1. Federal Transfer Funds in hundreds of millions of dollars.
 - A multiplier effect resulting in hundreds of millions of dollars spent on home construction, property, furnishings and appliances.
2. An infusion of significant technical, management and educational skills.
3. A second career for many who create new business entrepreneurial startups creating new job growth and employment.
4. Essentially no impact on the school system as most children of retirees have reached or are near maturity.
5. Minimal impact or drain on law enforcement resources.

SUMMARY (continued)

6. Tax revenues derived from property values.
7. No welfare impact due to income level
8. No impact on Medicaid as health insurance is well established (TRICARE and Medicare)
9. Potential leverage against future base closures.
10. Increase in Montana income tax revenues due to retiree civilian employment activities and increased profit/salaries for new industry and small businesses.
11. Stability in economic down turns
 - Cost of Living Adjustment on military retirement, disability and Social Security incomes.

- Military Retirees
- Businesses within the State
- New jobs created by entrepreneurial retirees
- Increase in Gross Receipts Taxes
- Availability of skills to meet industry growth
- Tax increases to the State
- Workforce enhancement

EVERYONE WINS!

Organizations that endorse this Bill:

- ✓ MT American Legion
- ✓ MT Veterans of Foreign Wars
- ✓ MT Disabled American Veterans
- ✓ MT Enlisted Association
- ✓ Western MT Military Officers' Association
- ✓ Marine Corps League
- ✓ Special Forces Association

"The People declare that Montana servicemen, servicewomen, and veterans may be given special considerations determined by the legislature"

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